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ARIZONA CORPORATION COMMISSION

March 21, 2005

Chairman Jeff Hatch-Miller
Commissioner Marc Spitzer
Commissioner Mike Gleason
Commissioner Kris Mayes

Re: Environmental Portfolio Standard, Docket No. RE-00000C-05-0030

Dear Colleagues:

As you all know, in January, Staff released its report on the proposed changes to the Environmental Portfolio Standard ("EPS") Rules. The Staff Report contains a new requirement that an increasing percentage of the Portfolio come from purchase power agreements resulting from public bids or RFPs. This requirement will start at 10% in 2006 and expand to 40% for 2010 and thereafter. This obligation is designed to encourage the construction of renewable generation by third parties.

I see a parallel between the need for additional renewable generation and the need for additional natural gas infrastructure in Arizona. Just as this Commission has endorsed a policy for pre-approval of cost recovery for utilities' participation in projects to expand natural gas infrastructure, I feel that it is appropriate to consider a policy of pre-approval of utility contracts for the purchase of renewable energy in order to increase the number of renewable generation projects. One of the driving factors behind this Commission's decision to institute a policy of pre-approval of costs for natural gas infrastructure was to increase the diversity of supply. I ask that we also consider pre-approval of costs for the purchase of renewable energy as an option to increase the diversity of supply of electricity generated in Arizona. I am not asking that the Commission consider pre-approval of renewable generation built by the utilities themselves.

As the costs of fossil fuels continue to rise, power generated by renewable means, such as wind, solar, biomass, geothermal, and landfill gas, continues to become more competitive. The benefits of cultivating these industries in Arizona are many – cleaner air, increased reliability, decreased dependence on fossil fuels, and economic development.

I am aware that if the RFP provision does not make it into the final version of the EPS Rules, then the point is moot. However, I feel that a discussion of this issue would be appropriate at this time and request that this matter be placed on the agenda of the next Staff Meeting for discussion. If the final EPS Rules do contain the requirement that an increasing percentage of the Portfolio come from purchase power agreements resulting from public bids or RFPs, then at the time the formal rulemaking process begins it may be appropriate to issue a Notice of Inquiry on the pre-approval process for utility contracts for the purchase of renewable energy.

Sincerely,

William A. Mundell, Commissioner
Arizona Corporation Commission

cc: Brian McNeil
Ernest Johnson
Ray Williamson

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